

CITY OF FAIRBANK, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2012

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City of Fairbank, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Maurice Welsh	Mayor	December 31, 2013
Ronald Woods	Mayor Pro tem	December 31, 2015
Ted Vorwald	Council Member	December 31, 2013
Dean Mangrich	Council Member	December 31, 2013
Justin Sullivan	Council Member	December 31, 2013
Tammy Erickson	Council Member	December 31, 2015
Marlene Strempe	City Clerk	December 31, 2012
Mary Lou Fink	Treasurer	December 31, 2012
Carter Stevens & Heather Prendergast	Attorney	December 31, 2012

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairbank's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2011.


In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated March 27, 2013 on my consideration of the City of Fairbank's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The City of Fairbank has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairbank's basic financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total balance at July 1, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairbank's basic financial statements. The budgetary comparison information on pages 13 through 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.


KEITH OLTROGGE
Certified Public Accountant

Denver, Iowa
March 27, 2013

Basic Financial Statements

City of Fairbank, Iowa

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions, & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 140,053	\$ 49,638	\$ 4,817	\$ -
Public works	95,891	500	-	-
Health and social services	975	-	-	-
Culture and recreation	184,601	62,620	5,920	15,912
Community and economic development	270	-	-	-
General government	30,265	10	-	-
Debt service	168,150	-	-	-
Capital projects	17,731	-	-	-
Total governmental activities	\$ 637,936	\$ 112,768	\$ 10,737	\$ 15,912
Business type activities:				
Water	\$ 75,087	\$ 89,855	\$ -	\$ -
Sewer	85,840	103,046	-	-
Electric	733,803	771,626	285	-
Natural Gas	316,087	348,523	-	-
Solid Waste	58,903	57,939	-	-
Total business type activities	\$ 1,269,720	\$ 1,370,989	\$ 285	\$ -
Total	\$ 1,907,656	\$ 1,483,757	\$ 11,022	\$ 15,912
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Special assessments				
Miscellaneous				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities		Business Type Activities		Total
\$	-85,598	\$	-	\$ -85,598
	-95,391		-	-95,391
	-975		-	-975
	-100,149		-	-100,149
	-270		-	-270
	-30,255		-	-30,255
	-168,150		-	-168,150
	-17,731		-	-17,731
\$	-498,519	\$	-	\$ -498,519
\$	-	\$	14,768	\$ 14,768
	-		17,206	17,206
	-		38,108	38,108
	-		32,436	32,436
	-		-964	-964
\$	-	\$	101,554	\$ 101,554
\$	-498,519	\$	101,554	\$ -396,965
\$	208,919	\$	-	\$ 208,919
	178,844		-	178,844
	82,782		-	82,782
	4,934	4,881		9,815
	1,723	-		1,723
	165,932	15,329		181,261
	11,100	-11,100		-
\$	654,234	\$	9,110	\$ 663,344
\$	155,715	\$	110,664	\$ 266,379
	712,653		1,271,309	1,983,962
\$	868,368	\$	1,381,973	\$ 2,250,341
\$	30,717	\$	-	\$ 30,717
	60,649		-	60,649
	147,374		-	147,374
	-		-	-
	246,975			246,975
	382,653	1,381,973		1,764,626
\$	868,368	\$	1,381,973	\$ 2,250,341

City of Fairbank, Iowa

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 203,314	\$ -	\$ -
Tax increment financing	-	-	178,844
Other city tax	-	-	-
Licenses and permits	1,730	-	-
Use of money and property	4,352	-	261
Intergovernmental	46,556	105,569	-
Charges for service	107,223	-	-
Special assessments	1,001	-	-
Miscellaneous	35,520	-	-
Total receipts	\$ 399,696	\$ 105,569	\$ 179,105
Disbursements:			
Operating:			
Public safety	\$ 140,053	\$ -	\$ -
Public works	14,938	80,953	-
Health and social services	975	-	-
Culture and recreation	171,086	-	-
Community and economic development	270	-	-
General government	30,265	-	-
Debt service	-	-	168,150
Capital projects	-	-	-
Total disbursements	\$ 357,587	\$ 80,953	\$ 168,150
Excess (deficiency) of receipts over (under) disbursements	\$ 42,109	\$ 24,616	\$ 10,955
Other financing sources (uses):			
Operating transfers in (out)	\$ 44,764	\$ -	\$ 23,652
Net change in cash balances	\$ 86,873	\$ 24,616	\$ 34,607
Cash balances beginning of year	\$ 295,780	\$ 36,033	\$ 112,767
Cash balances end of year	\$ 382,653	\$ 60,649	\$ 147,374
Cash Basis Fund Balances			
Nonspendable – Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Streets	-	60,649	-
Urban renewal purposes	-	-	147,374
Other purposes	-	-	-
Unassigned	382,653	-	-
Total cash basis fund balances	\$ 382,653	\$ 60,649	\$ 147,374

See notes to financial statements

Non-major		Total	
\$	5,605	\$	208,919
	-		178,844
	82,782		82,782
	-		1,730
	1,209		5,822
	1,943		154,068
	5,545		112,768
	722		1,723
	375		35,895
\$	98,181	\$	782,551
\$	-	\$	140,053
	-		95,891
	-		975
	13,515		184,601
	-		270
	-		30,265
	-		168,150
	17,731		17,731
\$	31,246	\$	637,936
\$	66,935	\$	144,615
\$	-57,316	\$	11,100
\$	9,619	\$	155,715
\$	268,073	\$	712,653
\$	277,692	\$	868,368
\$	30,717	\$	30,717
	-		60,649
	-		147,374
	246,975		246,975
	-		382,653
\$	277,692	\$	868,368

City of Fairbank, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise Funds	
	Electric	Natural Gas
Operating receipts:		
Charges for service	\$ 771,626	\$ 348,523
Operating disbursements:		
Business type activities	\$ 733,803	316,087
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 37,823	\$ 32,436
Non-operating receipts (disbursements):		
Intergovernmental	\$ 125	\$ 157
Interest on investments	2,432	1,430
Miscellaneous	10,330	142
Net non-operating receipts (disbursements)	\$ 12,887	\$ 1,729
Excess of receipts over disbursements	\$ 50,710	\$ 34,165
Operating transfers out	-11,100	-
Net change in cash balances	\$ 39,610	\$ 34,165
Cash balances beginning of year	640,294	341,756
Cash balances end of year	\$ 679,904	\$ 375,921
Cash Basis Fund Balances		
Unrestricted	\$ 679,904	\$ 375,921

See notes to financial statements.

Enterprise Funds			
Non-major		Total	
\$	250,840	\$	1,370,989
\$	219,830	\$	1,269,720
\$	31,010	\$	101,269
\$	157	\$	439
	1,019		4,881
	4,703		15,175
\$	5,879	\$	20,495
\$	36,889	\$	121,764
	-		-11,100
\$	36,889	\$	110,664
	289,259		1,271,309
\$	326,148	\$	1,381,973
\$	326,148	\$	1,381,973

City of Fairbank, Iowa
Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Fairbank is a political subdivision of the State of Iowa located in Buchanan and Fayette Counties. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, electric, natural gas, garbage and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairbank has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan and Fayette Counties Assessor's Conference Board, City Assessor's Conference Board, Buchanan and Fayette Counties Emergency Management Commission, Buchanan and Fayette Counties Landfill Commission and Buchanan and Fayette Counties Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

The Enterprise, Natural Gas Fund accounts for the operation and maintenance of the City's natural gas system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Non-spendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the City had the following investments:

	Interest Rate	Maturity	Carrying Value	Fair Value
Northeast Security Bank	.35%	7-3-12	\$23,320	\$23,320
Northeast Security Bank	.65%	6-27-13	59,244	59,244
Northeast Security Bank	.65%	8-15-12	11,729	11,729
Northeast Security Bank	.35%	7-19-12	5,702	5,702
			<u>\$99,995</u>	<u>\$99,995</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$151,162 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and urban renewal tax increment financing revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Essential Corporate Purpose and Refinancing Issued July 27, 2010		Urban Renewal REC Loan Issued December 1, 2007			
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$120,000	\$8,650	\$37,500	\$-	\$157,500	\$8,650
2014	115,000	6,850	37,500	-	152,500	6,850
2015	115,000	4,780	37,500	-	152,500	4,780
2016	90,000	2,250	37,500	-	127,500	2,250
	\$440,000	\$22,530	\$150,000	\$-	\$590,000	\$22,530

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$300,000 of urban renewal tax increment financing (TIF) revenue bonds in December 2007 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds.

The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$150,000, payable through June 2016. For the current year, interest paid and total TIF receipts were \$0 and \$178,844, respectively.

General Obligation Bonds

The City issued \$680,000 of corporate purpose and refunding bonds in July 2010 to repay \$388,920 of TIF revenue notes issued in November 2003. Proceeds from the bonds also provided financing for the construction of water system and street improvements. The total principal and interest remaining to be paid on the notes is \$462,530. For the current year, principal and interest paid were \$130,150.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$32,942 equal to the required contributions for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$506 for single coverage and \$1,194 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$52,965 and plan members eligible for benefits contributed \$1,800 to the plan.

(6) Compensated Absences

City employees do not accumulate unused vacation hours. They may accumulate up to 90 hours of sick time. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned sick leave payable at June 30, 2012 is \$33,069. The liability has been computed based on rates of pay in effect June 30, 2012.

(7) Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Electric	\$ 11,100
General	Special Revenue:	
	Emergency Levy	5,605
	Local Option Sales Tax	28,059
Urban Renewal Tax Increment	Capital Projects	23,652
		<u>\$ 68,416</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$61,677 during the year ended June 30, 2012.

(9) Inter-fund Loan

The City had an inter-fund loan from the Enterprise Fund – Electric Fund to the Special Revenue – Road Use Tax Fund for a snow plow. The total amount loaned was \$89,135 at 4% interest during fiscal year 2006. The loan was paid in full at June 30, 2012. During the year ended June 30, 2012 principal paid was \$9,730.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$33,463.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Subsequent Events

Management has evaluated subsequent events through March 27, 2013 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fairbank, Iowa

**Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 208,919	\$ -
Tax increment financing	178,844	-
Other city tax	82,782	-
Licenses and permits	1,730	-
Use of money and property	5,822	4,881
Intergovernmental	154,068	439
Charges for service	112,768	1,370,989
Special assessments	1,723	-
Miscellaneous	35,895	15,175
Total receipts	<u>\$ 782,551</u>	<u>\$ 1,391,484</u>
Disbursements:		
Public safety	\$ 140,053	\$ -
Public works	95,891	-
Health and social services	975	-
Culture and recreation	184,601	-
Community and economic development	270	-
General government	30,265	-
Debt service	168,150	-
Capital projects	17,731	-
Business type activities	-	1,269,720
Total disbursements	<u>\$ 637,936</u>	<u>\$ 1,269,720</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 144,615	\$ 121,764
Net other financing sources (uses)	<u>11,100</u>	<u>-11,100</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 155,715	\$ 110,664
Balances beginning of year	<u>\$ 712,653</u>	<u>\$ 1,271,309</u>
Balances end of year	<u>\$ 868,368</u>	<u>\$ 1,381,973</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 208,919	\$ 202,661	\$ 202,661	\$ 6,258
178,844	182,000	182,000	-3,156
82,782	72,600	85,415	-2,633
1,730	2,170	2,190	-460
10,703	11,114	9,642	1,061
154,507	129,204	531,858	-377,351
1,483,757	1,502,293	1,453,526	30,231
1,723	400	1,001	722
51,070	32,022	53,100	-2,030
<u>\$ 2,174,035</u>	<u>\$ 2,134,464</u>	<u>\$ 2,521,393</u>	<u>\$ -347,358</u>
\$ 140,053	\$ 132,243	\$ 524,754	\$ 384,701
95,891	96,985	104,335	8,444
975	975	975	-
184,601	199,735	205,585	20,984
270	169,300	169,300	169,030
30,265	40,814	40,414	10,149
168,150	-	-	-168,150
17,731	15,000	153,500	135,769
1,269,720	1,403,045	1,347,082	77,362
<u>\$ 1,907,656</u>	<u>\$ 2,058,097</u>	<u>\$ 2,545,945</u>	<u>\$ 638,289</u>
\$ 266,379	\$ 76,367	\$ -24,552	\$ 290,931
-	-	-	-
\$ 266,379	\$ 76,367	\$ -24,552	\$ 290,931
<u>\$ 1,983,962</u>	<u>\$ 1,839,135</u>	<u>\$ 1,839,135</u>	<u>144,827</u>
<u>\$ 2,250,341</u>	<u>\$ 1,915,502</u>	<u>\$ 1,814,583</u>	<u>\$ 435,758</u>

City of Fairbank, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the Debt Service function.

Other Supplementary Information

City of Fairbank, Iowa

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-major Governmental Funds**

Year ended June 30, 2012

	<u>Special Revenue</u>		
	Emergency Levy	Local Option Sales Tax	Capital Projects
Receipts:			
Property tax	\$ 5,605	\$ -	\$ -
Other city tax	-	82,782	-
Use of money and property	-	914	-
Intergovernmental	-	-	-
Charges for service	-	-	-
Special assessments	-	-	722
Miscellaneous	-	-	-
Total receipts	<u>\$ 5,605</u>	<u>\$ 83,696</u>	<u>\$ 722</u>
Disbursements:			
Operating:			
Culture and recreation	\$ -	\$ -	\$ -
Capital projects	-	-	17,731
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,731</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 5,605</u>	<u>\$ 83,696</u>	<u>\$ -17,009</u>
Other financing sources (uses):			
Operating transfers in (out)	<u>\$ -5,605</u>	<u>\$ -28,059</u>	<u>\$ -23,652</u>
Net change in cash balances	\$ -	\$ 55,637	\$ -40,661
Cash balances beginning of year	-	112,567	85,916
Cash balances end of year	<u>\$ -</u>	<u>\$ 168,204</u>	<u>\$ 45,255</u>
Cash Basis Fund Balances			
Non-spendable – Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for other purposes	-	168,204	45,255
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 168,204</u>	<u>\$ 45,255</u>

See accompanying independent auditor's report.

Permanent			
Non-expendable	Expendable		
Trust	Trust		
Cemetery	Cemetery	Total	
Perpetual			
Care			
\$ -	\$ -	\$ 5,605	
-	-	82,782	
289	6	1,209	
-	1,943	1,943	
-	5,545	5,545	
-	-	722	
375	-	375	
\$ 664	\$ 7,494	\$ 98,181	
\$ -	\$ 13,515	\$ 13,515	
-	-	17,731	
\$ -	\$ 13,515	\$ 31,246	
\$ 664	\$ -6,021	\$ 66,935	
\$ -15	\$ 15	\$ -57,316	
\$ 649	\$ -6,006	\$ 9,619	
30,068	39,522	268,073	
\$ 30,717	\$ 33,516	\$ 277,692	
\$ 30,717	\$ -	\$ 30,717	
-	33,516	246,975	
\$ 30,717	\$ 33,516	\$ 277,692	

City of Fairbank, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-major Proprietary Funds

As of and for the year ended June 30, 2012

	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 89,855	\$ 103,046	\$ 57,939	\$ 250,840
Operating disbursements:				
Business type activities	\$ 75,087	\$ 85,840	\$ 58,903	\$ 219,830
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 14,768	\$ 17,206	\$ -964	\$ 31,010
Non-operating receipts (disbursements):				
Intergovernmental	\$ 71	\$ 86	\$ -	\$ 157
Interest on investments	222	703	94	1,019
Miscellaneous	138	99	4,466	4,703
Net non-operating receipts (disbursements)	\$ 431	\$ 888	\$ 4,560	\$ 5,879
Net change in cash balances	\$ 15,199	\$ 18,094	\$ 3,596	\$ 36,889
Cash balances beginning of year	50,031	184,236	54,992	289,259
Cash balances end of year	\$ 65,230	\$ 202,330	\$ 58,588	\$ 326,148
Cash Basis Fund Balances				
Unrestricted	\$ 65,230	\$ 202,330	\$ 58,588	\$ 326,148

City of Fairbank, Iowa
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Essential corporate purpose and refunding	July 27, 2010	1.00-2.50%	\$680,000
Revenue notes:			
Urban renewal REC loan	December 1, 2007	0%	300,000
Total indebtedness			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$560,000	\$-	\$120,000	\$440,000	\$10,150	\$-
\$187,500	\$-	\$37,500	\$150,000	\$-	\$-
\$747,500	\$-	\$157,500	\$590,000	\$10,150	\$-

City of Fairbank, Iowa
Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total
	Essential Corporate Purpose and Refinancing		Urban Renewal REC Loan		
	Issued July 27, 2010		Issued December 1, 2007		
	Interest Rate	Amount	Interest Rate	Amount	
2013	1.50%	\$120,000	0%	\$37,500	\$157,500
2014	1.80%	115,000	0%	37,500	152,500
2015	2.20%	115,000	0%	37,500	152,500
2016	2.50%	90,000	0%	37,500	127,500
		<u>\$440,000</u>		<u>\$150,000</u>	<u>\$590,000</u>

See accompanying independent auditor's report.

City of Fairbank, Iowa

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Two Years

	2012	2011
	(Audited)	(Unaudited)
Receipts:		
Property tax	\$ 208,919	\$ 203,643
Tax increment financing collection	178,844	151,170
Other city tax	82,782	83,681
Licenses and permits	1,730	2,295
Use of money and property	5,822	15,929
Intergovernmental	154,068	156,179
Charges for service	112,768	81,539
Special assessments	1,723	1,865
Miscellaneous	35,895	130,598
Total	<u>\$ 782,551</u>	<u>\$ 826,899</u>
Disbursements:		
Operating:		
Public safety	\$ 140,053	\$ 140,479
Public works	95,891	259,056
Health and social services	975	975
Culture and recreation	184,601	218,075
Community and economic development	270	2,436
General government	30,265	58,190
Debt service	168,150	257,500
Capital projects	17,731	271,300
Total	<u>\$ 637,936</u>	<u>\$ 1,208,011</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 27, 2013. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Fairbank is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Fairbank's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Fairbank's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Fairbank's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fairbank's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Fairbank's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairbank's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Fairbank's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairbank and other parties to whom the City of Fairbank may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Fairbank during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.


Keith Oltrogge
Certified Public Accountant

March 27, 2013

City of Fairbank
Schedule of Findings
Year Ended June 30, 2012

Part I – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response– We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-12 Annual Financial Statements – The ability to apply generally accepted accounting principles to the financial statements and determine the sufficiency of the footnote disclosures is a necessary aspect of internal control over the City's financial reporting process. The City does not possess an individual with the appropriate expertise to apply generally accepted accounting principles to the financial statements and to draft and determine the sufficiency of the necessary disclosures. The City has a limited number of employees and it is not cost beneficial to employ an individual with this type of expertise and knowledge. The internal financial statements prepared by the City are not prepared in accordance with generally accepted accounting principles and do not contain the required footnote disclosures.

Recommendation – This is a common control deficiency of most small Cities and is often not corrected due to cost benefit considerations. I could assist you in gaining the necessary knowledge and skills if you determine that this is a control deficiency that the City would like to address.

Response and planned corrective action – We will consult with you as needed on financial statement considerations.

Conclusions – Response accepted.

City of Fairbank, Iowa

Schedule of Findings

Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do this.

Conclusion – Response accepted.

- II-B-12 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ron Woods, Council Member Owner of Woods Construction	Construction, per bid	\$59,062
Ron Woods, Council Member Owner of Woods Construction	Repairs	2,615
		<u>\$61,677</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the construction does not appear to represent a conflict of interest since it was entered into through competitive bidding. The repairs may represent a conflict of interest since they are over \$1,500.

Recommendation – The City should use competitive bidding process when practicable.

Response – The repair transactions were normal expenses. A competitive bidding process is not always practicable, however, we will endeavor to competitively bid the work when practicable.

Conclusion – Response accepted.

- II-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-12 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

City of Fairbank, Iowa

Schedule of Findings

Year ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting (continued):

II-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-12 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.